

# **Evaluating the Ability of the Individual Taxpayer Burden Model to Measure Components of Taxpayer Burden: The AMT as a Case Study**

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# Goals

- Estimate the taxpayer compliance burden of the Alternative Minimum Tax (AMT)
- Can the new Treasury-IRS Individual Taxpayer Burden Model (ITBM) provide compliance burden estimates of specific tax provisions?

# Today's Presentation

- Summary of the ITBM.
- Summary of AMT structure.
- AMT burden estimates for AMT filers.
- AMT burden estimates for other taxpayers.
- Conclusions and suggestions.

# Compliance Burden

- The total of the taxpayer's time spent and out-of-pocket expenses for complying with federal income tax obligations up to and including the completion and filing of the taxpayer's income tax return.
- Does NOT include mandated actions that the taxpayer fails to do.
- Does NOT include any post-filing burdens.



# Burden Model Overview

- The Individual Taxpayer Burden Model (ITBM) is a micro-simulation model.
- The ITBM estimates taxpayer burden based on the tax form lines used by a taxpayer.
- The burden of each line varies and depends on the characteristics of the line that are believed to produce burden.
- Based on a survey of taxpayers, equations were developed that related surveyed taxpayers line usage to their self-reported burden.

# How the ITBM Measures Burden

- For each tax form line and instruction, the ITBM systematically identifies activities in 21 categories that taxpayers who use that tax form line or instruction must have undertaken.
- For example: calculate; get information from information return; or refer to instructions.
- These activities (“attributes”) are the components that lead to taxpayer burden.

# How do we know ITBM estimates for the AMT are accurate?

## Problem:

- Nothing definitive to measure against.

## Some possible tests:

- Compare relative burdens for subgroups.
- Do they match *a priori* notions?  
Do they make sense?
- Compare results to existing burden estimate.

# Highly Simplified AMT – 2000

## **Income for AMT Purposes**

*(Disallows exemptions, standard deduction, and some itemized deductions. Includes some income not in AGI.)*

Less: AMT Exemption (\$33,750 or \$45,000)

Equals: AMT taxable income

## **Calculate: Tentative AMT tax**

*(26% of first \$175,000 and 28% of any excess)*

Less: Ordinary tax *(adjusted for certain tax credits)*

**Equals: AMT (if greater than zero)**

# Three Reasons Taxpayers File AMT Form (Form 6251)

- Have AMT liability or reduced credits (1.4 million),
- No liability but required by IRS instructions to file Form 6251 (0.5 million), or
- Filed 6251 for no apparent reason (3.8 million).

**Total Form 6251 Filers:**

**5.7 million, per ITBM (4.7 million per SOI).**

# Average Time and Money AMT Burdens for Form 6251 Filers

	Time Burden (hours)		Money Burden (\$)	
	Simple	Complex	Simple	Complex
<b>Paid-Prep</b>	1.6	1.9	\$106	\$111
<b>Self-Prep, Computer</b>	2.4	2.2	\$14	\$15
<b>Self-Prep, Manual</b>	4.4	5.9	\$18	\$12
<b>TOTAL</b>	1.9	2.1	\$86	\$97
<b>Simple &amp; Complex</b>	1.9		\$88	

# Comparison to A.D. Little Model (Currently Used IRS Methodology)

Burden per taxpayer is very similar, but distribution by burden category is different.

- Even for complex AMT filers, ITBM shows no recordkeeping burden - NOT REASONABLE.
- ITBM is much better in NOT assigning form copying and submission burden at the margin.



# Aggregate Burden – 6251 Filers

= 10.9 million hours (4% of their total burden),  
= \$498 million (14% of their total burden).

	Time Burden (in millions of hours)		Money Burden (in millions of \$)	
	Total	AMT	Total	AMT
Simple 6251 Filers	224.4	8.6	\$2,220	\$389
Complex 6251 Filers	78.9	2.3	\$1096	\$109
Simple & Complex Filers	303.3	10.9	\$3,316	\$498
	4%		14%	

# **Aggregate AMT Burden Results Using SOI Taxpayer Counts**

## **Aggregate AMT Time Burden would be:**

- 8.7 million hours, or
- 20 percent lower than the 10.9 million hours using ITBM taxpayer counts.

## **Aggregate AMT Money Burden would be:**

- \$440 million, or
- 11 percent lower than the \$498 million using ITBM taxpayer counts.

# AMT Burden for Non-AMT Filers

Taxpayers who do not actually file Form 6251 may have burden from the AMT.

Burden is from determining whether they are affected by the AMT.

This is “Threshold Burden.”

Using Attributes Methodology ITBM can be used to estimate Threshold Burden – but requires Assumptions about taxpayer behavior.

# Threshold Burden: Other Taxpayers

- We assume that 100% of Form 1040 manual self-preparers incur burden as measured by attributes of the instructions for the Form 1040 AMT entry line.
- **Threshold Burden**  
**= 7.5 million hours and \$40 million.**
- Threshold Burden for Non-Filers of Form 6251  
= 69% of TIME AMT burden of filers,  
= 8% of MONEY AMT burden of filers.

# **Combined AMT Burden: Form 6251 Filers & Threshold Burden for Other Taxpayers**

## **Combined burden is**

- 18.4 million hours (1% of total burden for all taxpayers),
- \$538 million (3% of total burden for all taxpayers).

## **AMT burden of taxpayers with AMT liability is**

- 16% of TIME AMT burden of all taxpayers,
- 23% of MONEY AMT burden of all taxpayers.

## **AMT burden in perspective:**

- For 2000, AMT liability was \$9.6 billion (AMT-related liability including reduced credits was \$13.5 billion) – or 1.0% to 1.4% of individual income tax liability.

# Conclusions -- #1

ITBM has many obvious strengths and great potential.

- Ability to simulate “what if” questions.
- Ability to measure burden by tax provision.
- Ability to explore “threshold” burden.

But ITBM has some limitations, most of which are already being addressed...

# Conclusions -- #2

Need to further investigate:

- Reasons for counterintuitive results,
- Method of burden determination from imputed taxpayer activities (attributes),
- Relative weights of types of attributes,
- Attribute assignment, especially for threshold decisions &
- Sufficiency of production data file, especially for less commonly used tax provisions.

Need to extrapolate ITBM to 2004 and beyond.

Need to continue model testing to assure that ITBM results are reasonable in most situations.



# Some Final Thoughts

In closing, let's remember...

- The ITBM should not be treated as a black box.
- Users must continually evaluate model output.  
(*Do the results make sense?*)
- Sometimes examination of unexpected results uncovers user errors, improperly-posed questions, or even problems with the model.
- Sometimes unexpected results are correct and help us to better understand our tax system.